



The Leadership Letter

Your Association Is a Non-Profit: Do You Know What That Means?

Each year about this time, our thoughts turn to taxes and the federal government—either we’re expecting to get money back or we’re wondering just how much we’ll need to pay. For non-profit organizations, it’s a different story, because typically our income is not taxable.

Did you know?

- ◆ The non-profit sector is the collective name used to describe institutions and organizations in American society that are neither government nor business. Other names can include the not-for-profit sector, the third sector, the independent sector, the philanthropic sector, the voluntary sector, or the social sector.
- ◆ Non-profits (as defined by the IRS) are dedicated to a specific mission. SECA and your state affiliates are dedicated to improving the lives of children and families and increasing the professionalism of early childhood educators.
- ◆ Your Association has been granted a 501 (c) (3) designation by the Internal Revenue Service. This means that most income generated by your Association is non-taxable and you may enjoy some benefits as a non-profit in your state.

- ◆ **Your EIN number is not your tax-exemption.** An EIN number is an employer ID number, not the official designation of non-profit status from the IRS.
- ◆ There are two types of groups that represent the SECA states. Most of our states have received their own 501 (c) (3) designation; however, four states (Arkansas, Louisiana, Mississippi and South Carolina) are considered sub-ordinate organizations and qualify as tax-exempt under SECA’s umbrella.
- ◆ For local chapters/affiliates, you should check with your state affiliate to determine your status. **The state may be providing your non-profit exemption through its umbrella.** If your state grants sales/use tax exemptions to non-profits, you will need your state’s IRS determination letter to claim that non-profit status.

Source: Module 1: Association & Non-Profit Organization Basics, Southern Early Childhood Association

<http://www.southernearlychildhood.org/upload/pdf/Module%201-Association%20%20Nonprofit%20Basics.pdf>

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The Characteristics of Non-profit Organizations

"Associations provide members with tools to more effectively conduct their businesses or practice their professions..... Freed from the profit motive that dominates business and from the constraints of government, the non-profit sector serves as a forum for the creation and dissemination of new ideas, an efficient vehicle for delivering social services and a guardian of our environment, values and heritage."

Non-profit organizations operate to serve others or advance a policy agenda, not to make a profit.

These characteristics define a non-profit:

⇒ **Mission driven:** These or-

ganizations are organized around a mission whose significance is central to their work.

⇒ **Limited resources:** Most non-profits operate with limited financial resources, work within tough time and financial constraints, and many take on short-term projects according to political or foundation grant cycles.

⇒ **Inter-organizational relationships:** Staff is often tightly networked with others in their particular field. They may be connected through collaborative projects, mutual funding sources or a similar clientele.

⇒ **Multiple stakeholders:** These organizations consist of,

and operate for, many different constituencies. This makes them interesting places to work but also makes for competing priorities and "politics".

According to Jerald Jacobs, author of the *Association Law Handbook*, **"Business, professional, and community leaders recognize that many of their common goals can be achieved more quickly and economically through joint action than through individual action. Associations are these "joint-action organizations"**.

Source: Board Training Module 1: Association & Non-profit Basics, <http://www.southernearlychildhood.org/upload/pdf/Module%201-Association%20%20Nonprofit%20Basics.pdf>

Can a Non-Profit Make a Profit?

Non-profits generally have some type of designated revenue stream that provides the backbone of their annual budgets. For the SECA states, there are two primary funding streams:

⇒ **Annual conference** and the revenue that is produced through registration, exhibitors and sponsorships

⇒ **Member dues**

Some states have diversified funding into various areas such as publishing, provision of CEU's (Florida) and state contracts (such as TEACH in Texas and professional development/training in Georgia).

Depending upon the size of the assets of the Association, invest-

ment income may also play a part in the annual budget process.

Although it may sound like an oxymoron, it is desirable for a non-profit to make a profit because that means that sufficient revenue will be available to maintain operations and perhaps advance the Association's agenda. For most non-profits, this revenue is called **surplus or net revenue**. In any case, a balanced budget that allows a profit margin is ideal for a non-profit association.

So what distinguishes a non-profit from a for-profit? Generally, it's what happens to those revenues. A for-profit company can distribute those excess revenues to owners,

shareholders, executives, etc.

Non-profit associations do not participate in revenue distribution: there are no shareholders in a non-profit corporation. Non-profits, unlike business, do not exist to make money for owners or investors.

Unrelated Business Income (UBI) is an area of challenge for many associations. This income is taxable, even if you're a non-profit. In the last few years, the IRS has scrutinized revenue generated through advertising. If you're concerned about this possibility, check with your auditor or go to <http://www.irs.gov/Charities-&Non-Profits/Unrelated-Business-Income-Tax> to get more information.

We're Non-Profit: Do We File a Tax Return?

Non-profit associations are required to file an annual information return with the IRS. For most of the SECA states, this is the 990 form: for those with receipts under \$50,000 per year, a simple postcard return is required.

For those of us required to file the 990 form, you will be asked for the following information:

- ◆ Income
- ◆ Expenses
- ◆ Program Activities
- ◆ Governance (your Board of Directors)
- ◆ Executive Compensation
- ◆ Other information about how your Association functions and works to meet its defined mission.

Because of some excesses at larger charities during the past several years, the IRS is requiring more

information than ever about how you operate, how your Board manages your finances and how much you compensate key employees.

Your Association must file your 990 form on or before the 15th day of the 5th month after the close of the Association's fiscal year. For example, if your fiscal year ends on December 31st, you have until May 15th of the next year to either file your return or request an extension. (Extensions do not cost anything and are not punitive in nature: you have simply notified the IRS that you need a little more time to complete the return.)

For those of you that meet the threshold of \$50,000 or less in income, you can electronically submit **Form 990-N**, also known as the *e-Postcard*. This filing requires only 8 items of basic information about your Association and can

typically be completed by your fiscal officer or business manager.

This filing must be made electronically: there is no paper form.

The 990 form is much more detailed and includes a Schedule A that must be completed. We recommend that these tax returns be completed by a qualified bookkeeper or auditor.

If you fail to file a return, there are penalties. There can be significant financial penalties for late filing of returns. If there is a problem pulling together your return, make sure to request additional extensions to avoid these penalties. **Failure to submit a return for 3 consecutive years will result in the loss of your tax-exempt status.** For more information, about returns, go to <http://www.irs.gov/Charities-&-Non-Profits>.

Your Board's Fiduciary Responsibility

What does fiduciary mean?

The standard definition refers to "a legal or ethical relationship of trust between two or more parties." As a Board member, the term applies to your relationship to your other Board members and to your individual conduct in relationship to the business of the Association. One of the critical elements of your participation as a Board member is to manage your Association's finances.

That means that you should:

- 1) Provide for fiscal accountability through monthly review of financial statements.
- 2) Employ the services of an accountant or auditor to regularly review the financial transactions of the Association.
- 3) Approve expenditures outside the budget.
- 4) Finalize and approve the annual budget.
- 5) Ensure that an annual tax return is filed and review the return.

You should be informed about how your Association generates revenue, where those revenues are allocated and whether staff is managing the finances of the Association properly. **No question is a bad question.** It's your job as a Board member to ask those questions.

For more information about finances, check out *The Association's Finances: A Guide for the Board of Directors* at

http://www.southernearlychildhood.org/upload/file/Leadership%20Page/Financial_Primer.pdf



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*Promoting Quality Care and Education for
Young Children and Their Families*

SECA is a "Voice for Southern Children"

www.southernearlychildhood.org

Did You Know?

SECA has a series of nine Board orientation/ training modules that are available on-line on the Leadership page.

The modules include a background paper, a PowerPoint presentation (and questions) for Board training, and information about resources. Two of the modules will be useful in further research on topics in this newsletter.

Module 7:

Non-Profit Association Tax Compliance

Module 8:

Non-Profit Association Finances, Fundraising

All materials can be downloaded from the website at

<http://www.southernearlychildhood.org/leadership.php>.

Click on Leadership Resources and scroll down to the bottom of the page.

At the End of the Fiscal Year: Review or Audit?

There are two types of financial reviews that can occur at the end of the Association's fiscal year.

The **Audit** is "***designed to provide reasonable but not absolute assurance that financial statements prepared by the treasurer, management company or outsourced bookkeeper are fairly presented and in conformity with the American Institute of Certified Public Accountants (AICPA) Generally Accepted Accounting Principles (GAAP).***" An audit requires independent verification that the financial information provided to the auditor is correct.

A **Financial Review** is less inclusive than an audit and requires the auditor to require Association personnel to verify the financial rec-

ords. It does not require any independent corroboration.

The Financial Review can cost substantially less than a full audit and provides some assurance that the financial records are in order. The full Audit contains the assurances of the auditor that all records were reviewed and corroborated and reports any areas of concern.

Some states require that non-profit organizations conduct an audit each year. You can go to this website to determine your state's requirements. <http://www.nasconet.org/documents/u-s-charity-offices/>

SECA has chosen to alternate between a Fiscal Review and an Audit in order to contain costs. The

Audit will occur at the end of the SECA President's term of office. For more information about the SECA process, go to http://www.southernearlychildhood.org/upload/file/Leadership%20Page/Audit_Primer.pdf.

Regardless of the type of review that you choose, you will need to find a qualified auditor. Check with other non-profits in your area to ask for references. You want an auditor who has experience working with non-profit audits and tax returns...a specialized field. An AICPA member is also a good idea.

For informational articles:

Grantspace www.grantspace.org

Association Times
<http://associationtimes.com>